ANALYZING FINANCIAL TRENDS

and

ASSESSING THE IMPACTS OF GROWTH

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Included in this publication is a set of questions and checklists designed to draw attention to issues that should be considered by a community's decision makers when confronted with growth issues:

> A **Financial Trend Analysis** examines the community's historical financial trends. The issues which local officials have dealt with in the past will usually emerge from this analysis (e.g., an increase in the sales tax rate four years ago will be graphically demonstrated). Division of Local Government staff is available to assist communities in this process.
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> **Assessing the Impacts of Growth** will help a community which has been experiencing recent growth, or is faced with a decision which will cause growth (such as an annexation, or a new subdivision). In such cases, local decision-makers have found that an analysis of the financial history of the community can often result in a more thorough understanding of growth and its implications. The staff of the Division of Local Government is prepared to assist local officials in this work.
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> Also included is a very brief section on **Social Impact Assessment**. The questions posed in this section serve as a reminder that any growth and development has implications beyond the fiscal. While its scope is limited in this discussion, social impact assessment should be seriously considered. An up-to-date comprehensive plan is important when conducting a social impact assessment because it offers a vision of what the community wants to look like and how it does and does not wish to change. If you do not have a comprehensive plan which has recently been updated, the staff at the Division of Local Government has many excellent examples.

FINANCIAL TREND ANALYSIS

The first step in any projection is to develop the baseline data. In this case, such financial data can be developed using a community's own records. Alternatively, the data necessary to analyze past trends in revenues and expenditures is available at the Division of Local Government. The Division has developed a database which extends as far back as 1975 for municipalities and counties, and 1989 for special districts. The data is functionally categorized, which makes possible comparisons with similar jurisdictions, either geographically or by population.

It can be helpful to enter that data into a spreadsheet, so that similar figures are near each other and can be easily compared. An electronic spreadsheet, such as Lotus 1-2-3 or Quattro Pro, is useful to display the historical trends as graphs and pie charts. This allows easier understanding of the relationships between functional expenditure areas and revenues over time. The commended minimum historical time frame to use is five years. The Division of Local Government has developed a Quattro Pro application for this purpose which can be used to analyze ten years of data.

ASSESSING THE IMPACTS of GROWTH

In order to project the fiscal impact that growth will have, it is first necessary to identify the components of growth as closely as possible. These components need to be quantified so that they can be reduced to "growth factors," which are then used as multipliers of base data.

Even if professional assistance is secured in conducting a fiscal impact assessment (FIA), certain decisions must be made as to how to structure the projected scenarios. Following is a description of assessment methods and other considerations which should be given to any projection based on growth and development.

FIA is commonly described as: "A projection of the direct, current, public costs and revenues associated with residential and nonresidential growth to the local jurisdiction(s) in which this growth is taking place." (Burchell and Listokin. <u>The Fiscal Impact Handbook</u>. 1988. p.1). By assessing the fiscal impacts of a proposed project, you will better understand what considerations are important for you and your community while planning the project, you will make more rational decisions concerning provision of services, and your decisions will lead to sound long-term growth policies.

The first step in completing an FIA is to analyze past trends of revenues and expenditures. The previous section on **Financial Trend Analysis** provides a brief description of such an effort. The second step in the FIA process is to make some initial projections of the expected changes in revenues and expenditures associated with your growth.

Following are brief descriptions of some methods you may use to calculate the projections necessary for these initial projections. They are: per capita multiplier method, case study method, service standard method, comparable city method, and proportional valuation method.

The **case study method** analyzes individual services' expenditures and revenues as projected by the heads of the departments who oversee each service. Use of this method assumes that the heads of the departments will have the best information. It is the best methodology for two reasons. First, it involves more people in the process and makes the project more personal for many residents. Second, if the department's own figures are used for each service, they may be more satisfied with the results.

The **per capita multiplier method** uses the present per capita revenues and expenditures associated with individual services to determine growth in revenues and expenditures based on the projected increase in population from a growth projection. This type of projection may be useful if your development's new population will greatly resemble a cross section of your town at present. If your project greatly resembles one section of the town but not much of the rest, it may be better to use the per capita multiplier of just that section.

The **service standard method**, like the per capita method, uses population change as a multiplier. Multiplied by per capita service standards, the predicted population change helps estimate how much more actual service will be required. Problems can arise with this method, though, when deciding whose standards to use. State, county, and local standards often vary. Additionally, there are sometimes multiple standard options within one town. For example, the town may have 1 acre of open space allotted for every 100 residents, but may wish to have two acres for every 100 residents. The question is, which one to use. For most cases it works best to use the standards that exist currently within your community.

The **comparable city method** uses other entities of like size and growth patterns to help project future revenue and expenditure figures. Assuming that similar towns have similar fiscal characteristics, it can be helpful to note how other towns changed after initiating projects similar to yours. A town should take into consideration more than just size and growth rate similarities, though, when choosing other towns to look at. Tourist towns should look at tourist towns, for example, and agricultural towns should look at other agricultural towns.

The **proportional valuation method** is a means to project the costs of providing services to nonresidential (commercial and industrial) units. Using the development's share of total local property value, a portion of local municipal costs is assigned.

Different methods may prove to be more accurate for one service than another. In some cases you may choose to use several of the methods to create alternative scenarios. Then, determine which best approximates your community's expected growth pattern. In deciding which methods to use, you should talk to potential developers and other experienced individuals to get their opinions on which methods may work best. It may also prove beneficial to do several complete time series tables, one for each method you choose to try.

When considering a trend analysis, remember that it is very difficult to predict secondary or induced effects such as how the local purchases of a new commercial development will affect the total sales, and thus employment, in the region. This type of focus is usually more applicable to entities of large populations. However, these secondary and induced effects may play a role in your project and should not be left unacknowledged. The Regional Input-Output Modeling System (RIMS) Multiplier method is one means to assess this more complex type of economic impact. Information on the RIMS Multiplier method can be found by contacting Jim Westkott of the Department of Local Affairs at (303) 866-2156.

Some Basic Considerations

Whether or not you consider any of the questions below will depend on where your community is in the planning process. Nevertheless, all of these questions and situations should be considered before a decision is made on whether or not to go ahead with a particular project. Later in this publication is a checklist with more questions of this nature. Together, these sets of questions are offered to help stimulate your thinking about issues that otherwise may not have been considered. Not all projects will have a positive fiscal impact, but by answering these questions, you will identify those impacts, which will allow you, in turn, to identify revenue sources to offset them.

How do the policies in your Capital Improvements Program (CIP) assign the burdens of cost for the additional services associated with the project? (Please see the separate DOLA publication which describes the benefits of a CIP and how to formulate your own.)

Are citizens more concerned with increasing taxes or lesser levels of service? What is the perceived point of equilibrium?

Who needs this project? Why?

Are other upcoming projects more important? Have priorities been established?

How might projects complement or compete with each other?

What is the compatibility of the implementation schedule with other planned facilities and services?

How far into the future will benefits be derived from this project?

What is the total direct cost? (Total direct cost includes all expenditures required for the initial completion of the project.)

What is the net cost to the municipality? (Net cost is the total direct cost minus any available non-municipal funds such as grants, reimbursements, credits, etc.)

What ongoing operational and maintenance costs will result from the new capital costs?

What are the alternatives to providing the service?

- creating a special district (see "Districts and Alternate Government Financing Mechanisms," a separate DLG publication.)
- joint financing; or
- privatization

What are the positive and negative effects of the project on other existing or planned facilities and services?

Are there other potential negative effects such as relocation of residents or businesses, a decreasing tax base, etc?

What is the proposed project's net contribution to the achievement of current municipal, regional, and state plans, policies and work programs?

What will happen if the project is not implemented?

What is the amount of time required for implementation, and the suitability for separating the project into different phases?

Are there timing and phasing restraints imposed by the financing methods?

SOCIAL IMPACT CONSIDERATIONS

While we have been focusing primarily on the fiscal aspects of impact assessment, we cannot overemphasize the importance of social impact assessment (SIA). In many cases, the fiscal complications and burdens that may come with growth are offset by the social benefits of that same growth. For example, the town's residents may bear a heavier tax rate than they did previous to the development, but they may gain overall because the development will offer an excellent facility for the care of the elderly.

Alternatively, the project may cause alterations in the social makeup of the town that the residents really do not like and were not expecting. With more consideration of social impacts, a negative social consequence of the development may be avoided. This section is meant to help you envision your project as a social addition to the whole community rather than just a fiscal appendage or structural alteration. The following questions should be considered and discussed:

Can local schools' faculty handle more children or will more teachers be necessary? Special programs?

If a new school will be needed, do you have the location picked out? Will it be close enough to residential areas?

What is it about your town that will draw, or does draw, business and new population? Will this be changing at all?

Will new commercial development change the "look" and "feel" of the downtown area? Is this accepted by the residents?

Can recreational facilities support a growing population or will there be overcrowding?

How do (will) the citizens feel about such potential impacts as:
- -Less open space around the town?
- -Potentially increased congestion?
- -Urbanization of rural areas?

Will this project benefit the whole town or just a section of the town?

Will this project change the ratio of jobs to residents in the town?

Are there any positive or negative environmental impacts?

How are the negative and positive effects distributed over different citizen groups and areas?

What impact will the project have on the quantity or quality of service to be provided to the public?
Does an annexation agreement ensure that growth occurs according to your town's standards?

Does residential growth meet the need of a special population (e.g. young adults, elderly)?

Is your community identified with a certain special industry, service, amenity, or attraction? If so, will the project alter that perception? If not, does the project create a desirable identification?

For sample financial trend analysis and data, graphs and charts, call the Department of Local Affairs at 303-866-2156.

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